

BILL # HB 2803

SPONSOR: Nelson

PREPARED BY: Hans Olofsson

TITLE: GPLET; military use zones

STATUS: House Engrossed

FISCAL ANALYSIS

Description

The Government Property Lease Excise Tax (GPLET) is an excise tax based on a building's square footage rather than its value. GPLET is levied on entities that lease the property of a city, town, county, or county stadium district for commercial and industrial purposes. By contrast, the property tax is levied based on the assessed value of a property.

HB 2803 establishes new requirements for a lease or development agreement between a prime lessee and a government lessor entered into after May 31, 2008 as it relates to GPLET. Under the bill, a lease or development agreement will not be allowed unless the economic and fiscal benefits to the state, county, or municipality in which the government property improvement is located will exceed the benefits received by the prime lessee as determined by an independent third party entity.

The bill also expands the areas where government property improvements will be eligible for GPLET to "military use zones." Under GPLET, the military use zone designation will apply to certain military airports and closed military facilities within the state.

Estimated Impact

The fiscal impact of the bill varies by provision and the magnitude cannot be determined in advance.

The military use zone provision could result in a state cost by generating additional GPLET agreements. Insofar as the agreements remove property currently on the tax rolls, they will result in a smaller property tax base than under current law, which will increase the state's share of the K-12 education formula cost. Under this statutory formula, any decrease in net assessed valuation (NAV) will reduce the local share of school funding, which then must be offset by the state General Fund.

The new economic analysis requirements under the bill may have the effect of resulting in fewer future GPLET projects than under current law. Under this scenario, future potential NAV losses would be smaller than under current law, which could result in a reduction of the state share of the education formula cost. However, this effect is difficult to predict and thus remains uncertain.

Analysis

According to proponents of the bill, the military use zone designation would apply to 5 military airports in the state. Thus, under the bill, parcels currently located in such areas could potentially be removed from the tax rolls in future years. However, even if all such parcels could be identified using a detailed mapping of the affected areas, it cannot be determined in advance which specific properties would be leased or developed for GPLET purposes. Thus, since the information that is required to provide a fiscal impact estimate is not currently available, it is also not possible to determine the potential NAV loss of the bill.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. Any NAV reduction under HB 2803 will have the effect of reducing local property taxes and thus increasing state aid to school districts. However, as noted above, without parcel-specific data, it is not possible to assess the fiscal impact of the bill.

Additionally, the economic analysis requirement under the bill could have the effect of potentially mitigating future NAV losses resulting from the creation of military use zones under the bill. The net effect of the bill's two provisions is unknown.

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While the future NAV impact of HB 2803 cannot be determined for the reasons outlined above, it may be instructive to note that an estimated \$111 million in primary NAV is currently excluded from the property tax base in the City of Phoenix as a result of GPLET. (GPLET levied in the City of Phoenix represents a little less than 80% of the statewide total.) This estimate was based on data provided by the Maricopa County Assessor's Office and the League of Arizona Cities and Towns. Using the same data, it can be inferred that if these properties had been subject to the property tax as opposed to GPLET, the total primary and secondary tax would have been an estimated \$17.0 million compared to \$2.4 million under GPLET. However, it should be noted that this comparison would overstate property tax losses if any of these properties would not have been developed in the absence of GPLET.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

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